HOUSING MARKET OUTLOOK
Kelowna CMA

CANADA MORTGAGE AND HOUSING CORPORATION

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Kelowna Highlights

- Demand for new and existing homes is forecast to pickup in 2011.
- Sales of existing homes will increase next year, buoyed by favourable interest rates, strong price competition among sellers and an ample supply of listings available for sale.
- Expect existing home prices to edge up as demand improves and the supply of listings is drawn down.
- Kelowna area housing starts, led by the single detached home sector, will move higher in 2011.

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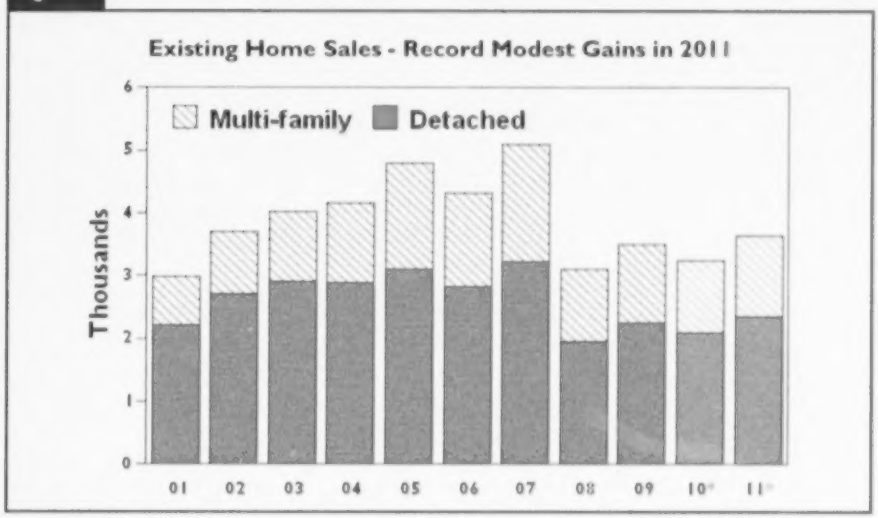

Source: OMREB. Multiples: Apartment and all Townhouses. *CMHC Forecast. MLS® Multiple Listing Service (MLS®) is a registered certification mark owned by the Canadian Real Estate Association.

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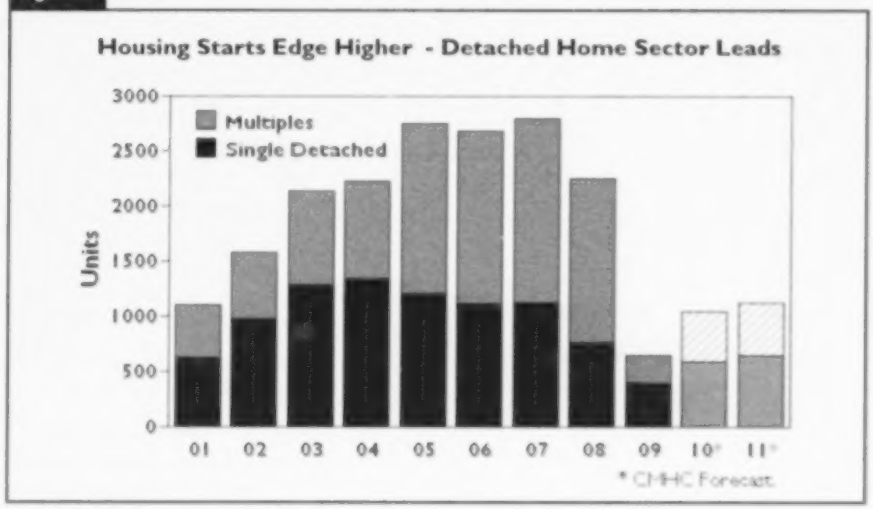
Existing Home Sales Move Higher in 2011

Demand for existing homes is forecast to pick up in 2011 as the provincial and regional economies record stronger employment growth. Favourable interest rates combined with strong price competition and an ample supply of listings for sale will also support growth in demand. Sales will move higher next year, but gains will be modest. Existing home sales have moderated in recent months after moving up sharply through the second half of 2009 and earlier this year. Expectations of higher interest rates resulted in some purchasers bringing forward their decision to buy, driving up sales last year and the first quarter of 2010. Pent-up demand among first-time buyers, a key factor underlying last year's upswing, has, to a large extent, been satisfied during the past year. Overall, 2010 existing home sales will closely approach 2009 levels.

Home buyers will continue to benefit from an ample supply of listings and strong price competition among sellers. The supply of listings among all housing types will remain in good supply through the balance of 2010 and most of 2011. Kelowna's existing home market will move to a balanced market position in 2011 as demand improves and the supply of listings slowly comes down. Moderating demand and rising supply has kept the Kelowna area existing home market in borderline buyers/balanced territory this year.

Existing home prices are forecast to edge up this year and next in line with inflation. An ample supply of listings in combination with modest growth in demand will temper upward pressure on prices. Detached home prices stabilized by mid 2009 after trending down since the previous Spring. The average detached home price has moved higher in 2010, but much of the increase is attributed to shifts in the price distribution of sales (more sales of mid and higher priced homes this year than last) rather than true price appreciation.

Figure 2



Sources: CMHC

Demand has broadened to include more move-up buyers this year. While sales of mid and higher priced homes have risen, the focus of demand among home buyers remains moderately priced homes. Single family homes (detached and semi-detached units) priced at less than $400,000 captured 33 and 42 per cent of sales during the first eight months of 2010 and 2009, respectively, compared to only 22 per cent in 2008.

Rutland, Westbank, Glenrosa and the Core area will be the most modestly priced locations. Black Mountain, Glenmore, Lake Country, North Glenmore, Peachland and Shannon Lake are the focus of buyers seeking mid-priced single-detached homes. Southeast Kelowna, Dilworth Mountain, the Mission area and sections of North Glenmore, Lakeview Heights and West Kelowna will command the highest prices.

Condominiums and townhomes are expected to see stronger growth in demand next year. Apartment condominium sales have picked up from the unusually low levels recorded during the first half of 2009. Kelowna's condominium sector was slower to rebound last year, recording a more modest uptick in sales than detached homes. Demand for resort homes and second residences, until 2008, the fastest growing segment of Kelowna's condominium market, waned as economies across North America experienced slower growth. Stronger competition from resort developments outside the Okanagan region also contributed to fewer sales of this product type in local markets. Lower new and existing home prices resulted in more competition from townhouses and single and semi-detached housing, ownership options previously beyond the price range of many local home buyers. Following a slower third quarter, both apartment condominium and townhouses sales are forecast to move higher through year-end. Year-over-year total sales will, like the detached home sector, be slightly lower than 2009 levels. Condominium and townhouse prices

have stabilized and with the supply listings at near record highs, prices are expected to remain essentially flat through most of 2011.

New Home Construction Up in 2011

Housing starts, led by the detached home sector, are forecast to move higher in 2010 and 2011.

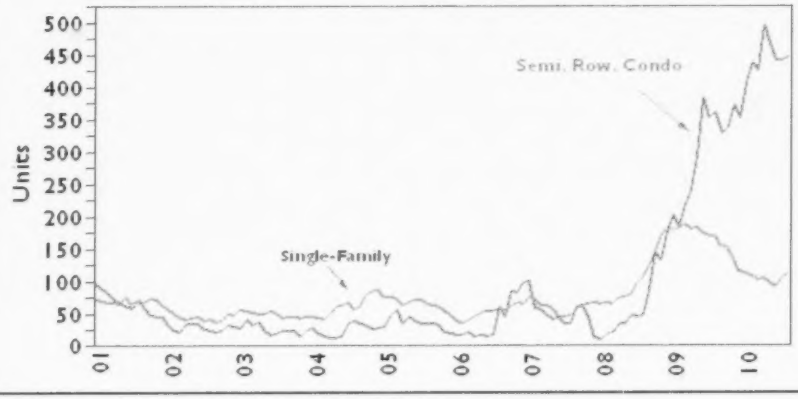
Lower lot prices and construction costs have allowed builders to compete more effectively with existing homes and attract more buyers this year. The inventory of completed and unoccupied detached homes has steadily declined since mid 2009, clearing the way for higher levels of detached home construction. New home buyers have benefited from an ample supply of building lots this year, a big change from the shortages seen prior to 2008. Lot prices have come down in response to moderating demand and increased supply. The introduction of the Harmonized Sales Tax (HST) in mid 2010 resulted in some new home buyers bringing forward their plans to build, boosting detached home construction during the first half of the year. Competition from the existing home market will continue to dampen upward pressure on new home prices in 2011.

Moderately priced homes will remain the focus of new detached home demand in 2010 and 2011. Builders are targeting buyers seeking homes in the $450,000 -$550,000 price range. This year, new detached homes have been available for low as $400,000, well below the average existing home price. Fewer buyers of resort-oriented homes and second residences have contributed to less demand for higher priced new homes this year. This segment of the new single family home market will continue to face strong price competition from a well-supplied resale home market in 2011.

Figure 3

High Inventories Temper Growth in New Home Construction

Inventory of New, Completed and Unoccupied Units



Source: CMHC

Kelowna's multi-family sector will record more condominium and attached home construction in 2011 and fewer rental apartment starts. Expect condominium construction to pick up later next year as the inventory of new, completed and unoccupied condominium units and supply of existing condominiums is slowly drawn down. Condominium absorption has improved in response to builder incentives and price reductions, but remains sluggish compared to recent years. The supply of apartment condominiums under construction has come down. Less supply under construction positions the condominium market for expansion in 2011 and 2012. Demand has shifted more to local buyers from investors and those seeking resort homes and second residences. The attached home sector, including both townhouses and semi-detached homes, will follow suit with more starts next year. For now, builders will focus on smaller and phased projects until demand improves and inventories come down.

Rental apartment construction will account for the largest share of multi-family starts in 2010 despite higher vacancy rates during the past year. Developers of multi-family rental housing are building in anticipation of lower vacancy rates. With construction costs coming down, rental construction has become a more viable development opportunity than in recent years. Reduced demand for condominiums may free up some building sites for rental construction. Rental apartment starts will total 200 – 250 privately and publically initiated units, the highest annual level since the early 2000s.

Employment Outlook More Positive in 2011

The Kelowna area economy will record stronger growth in 2011. Growth will support demand for housing. Employment growth, though modest, has become more widespread during the past year. Tourist visits have moved higher in 2010. The Okanagan region's forest products industry has benefited from

rising lumber prices and increased demand south of the border. The non-residential construction sector, including infrastructure and institutional construction projects has been a key source of job creation. With housing starts forecast to increase, the residential construction sector is also expected to see a modest uptick in employment.

The Kelowna International Airport and UBC Okanagan (University of British Columbia – Okanagan campus) remain key growth sectors. Enrolment at both UBC Okanagan and Okanagan College are up this year. UBC Okanagan has become a major economic driver since its creation in 2005, bringing to Kelowna direct and spin-off employment, significant capital expenditure, industry partnerships, research dollars, profile and demand for housing. The Kelowna International Airport has emerged as one of the area's largest employers. Kelowna's airport runway has now been extended to accept direct overseas flights. Further expansion to the terminal facilities will proceed next year. Looking forward, improved accessibility will enhance the area's appeal to both tourists, business and potential home buyers. Other projects include the expansion of Kelowna General Hospital to include health care services currently available only in Vancouver, an important consideration for retirees seeking to relocate to this region. The incorporation of Westbank and other neighbourhoods located on the west side of Lake Okanagan and residential and non residential construction on Westbank First Nations lands will continue to generate additional economic activity and employment growth. Businesses seeking to attract workers will benefit from higher vacancy rates, strong price competition among sellers and a better selection of both new and existing homes.

Figure 4

Low Mortgage Interest Rates Support Housing Demand

Source: Bank of Canada

Mortgage Rates: According to CMHC's base case scenario, posted mortgage rates will remain flat in the second half of 2010 and in 2011. For 2010, the one-year posted mortgage rate is assumed to be in the 3.0 to 3.7 per cent range, while three and five-year posted mortgage rates are forecast to be in the 3.2 to 6.1 per cent range. For 2011, the one-year posted mortgage rate is assumed be in the 2.7 to 3.7 per cent range, while three and five-year posted mortgage rates are forecast to be in the 3.5 to 6.0 per cent range.

Forecast Summary
Kelowna CMA
Fall 2010

	2007	2008	2009	2010f	% chg	2011f	% chg
Resale Market							
MLS® Sales [1]	5,584	3,445	3,660	3,500	-4.4	3,950	12.9
MLS® New Listings [1]	9,320	11,737	9,515	10,000	5.1	10,000	0.0
MLS® Average Price ($) [2]	507,780	541,131	489,453	518,000	5.8	530,000	2.3
New Home Market							
Starts							
Single-Detached	1,130	765	404	600	48.5	650	8.3
Multiples	1,675	1,492	253	450	77.9	475	5.6
Semi-Detached	100	98	62	75	21.0	75	0.0
Row/Townhouse	233	207	55	75	36.4	100	33.3
Apartments	1,342	1,187	136	300	120.6	300	0.0
Starts - Total	2,805	2,257	657	1,050	59.8	1,125	7.1
Average Price ($)							
Single-Detached	629,741	716,494	751,103	770,000	2.5	745,000	-3.2
Median Price ($)							
Single-Detached	549,000	599,900	582,645	625,000	7.3	600,000	-4.0
New Housing Price Index (% chg) (B.C.)	6.4	2.1	-6.5	n.a.	-	n.a.	-
Rental Market							
October Vacancy Rate (%)	0.0	0.3	3.0	3.5	0.5	3.0	-0.5
Two-bedroom Average Rent (October) ($)	846	967	897	890	-	910	-
One-bedroom Average Rent (October) ($)	715	803	737	730	-	745	-
Economic Overview							
Mortgage Rate (1 year) (%)	6.90	6.70	4.02	3.47	-	3.20	-
Mortgage Rate (5 year) (%)	7.07	7.06	5.63	5.59	-	5.20	-
Annual Employment Level	88,200	95,300	95,700	101,000	5.54	103,000	1.98
Employment Growth (%)	1.5	8.0	0.4	5.5	-	2.0	-
Unemployment rate (%)	4.6	5.1	8.8	8.0	-	7.5	-
Net Migration (B.C.)	58,697	65,691	61,118	57,700	-5.6	64,900	12.5

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(1) The 2009 migration data is a forecast

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM), OMREB (Okanagan Mainline Real Estate Board).

NOTE: Rental universe = Privately initiated rental apartment structures of three units and over.

(1) MLS® Sales and New Listings = Total Residential. (2) MLS® Average Sale Price = Single Family Residential.

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